



Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Relating to the ICC Risk Parameter Setting and Review Policy

May 20, 2021.

I. Introduction

On April 2, 2021, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the Act)¹ and Rule 19b-4 thereunder,² a proposed rule change to make changes to ICC’s Risk Parameter Setting and Review Policy (“RPSRP”). The proposed rule change was published for comment in the Federal Register on April 14, 2021.³ The Commission did not receive comments regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description of the Proposed Rule Change

ICC is proposing to revise its RPSRP, which describes the process of setting and reviewing the risk management model core parameters and the performance of sensitivity analyses related to certain parameter settings. Specifically, the proposed rule change would amend the “Univariate Level Parameters” subsection (Subsection 1.7.1) related to the univariate level parameters associated with the integrated spread response model component.⁴ Namely, ICC proposes to transition the risk management mean absolute deviation (“MAD”) monthly parameter update for index risk factors to an automatic daily update in the risk management

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ ICC Risk Parameter Setting and Review Policy, Exchange Act Release No. 91517 (April 8, 2021), 86 Fed. Reg. 19667 (April 14, 2021) (SR-ICC-2021-009) (“Notice”).

⁴ The description of the proposed rule change is excerpted from the Notice.

system. The proposed changes would also specify that single name risk factor level risk management MADs are not subject to automatic updates and that the ICC Risk Department estimates and reviews the univariate single name integrated spread response parameters and their assumptions at least on a monthly basis.

Further, the proposed rule change would make minor clarifications to the “Implied Distribution Parameters for Index Option Instruments” subsection (Subsection 1.7.4). Specifically, ICC previously replaced naming conventions used in the RPSRP for stress scenarios associated with the Lehman Brothers (“LB”) default with more generic naming conventions associated with extreme price changes, namely extreme price decreases and increases (the “Extreme Price Change Scenarios”). The proposed rule change would make minor updates to replace references and notations to the scenarios associated with the LB default with the Extreme Price Change Scenarios. ICC also proposes to consistently refer to “stress MAD factors” as “stress implied MAD factors” in this section.

Finally, the proposed rule change would amend the “Routinely Updated Parameters” subsection (Subsection 2.4) to be consistent with the changes to Section 1.7.1 noted above specifying that the index risk factor level risk management MADs are automatically updated daily in the risk management system and the other risk factor parameters are reviewed at least monthly.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.⁵ For the reasons given below, the Commission finds that the proposed rule change

⁵ 15 U.S.C. 78s(b)(2)(C).

is consistent with Section 17A(b)(3)(F) of the Act⁶ and Rules 17Ad-22(e)(2)(i) and (v),⁷ Rule 17Ad-22(e)(4)(ii),⁸ and 17Ad-22(e)(6)(i)⁹ and thereunder.

A. Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency, like ICC, be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, as well as to assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible.¹⁰ The Commission believes that the proposed changes to the RPSRP, as described above, would timely capture any significant MAD changes and minimize the cumulative effect of MAD changes between parameter updates for index risk factors, and thus reduce the level of initial margin procyclicality. This, in turn, helps to ensure that ICC collects initial margin sufficient to cover its credit exposures to its clearing participants, thereby supporting its ability to continue operating as a central counterparty with the financial resources necessary for ICC to promptly and accurately clear and settle CDS transactions and safeguard securities and funds.

Further, the Commission believes that the changes to the Implied Distribution Parameters for Index Option Instruments in the RPSRP to replace references and notations to the scenarios associated with the LB default with the Extreme Price Change Scenarios strengthens the RPSRP documentation so that all sections are consistent with the previous change that incorporated Extreme Price Change Scenarios into the ICC risk management procedures, including the

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ 17 CFR 240.17Ad-22(e)(2)(i) and (v).

⁸ 17 CFR 240.17Ad-22(e)(4)(ii).

⁹ 17 CFR 240.17Ad-22(e)(6)(i).

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

RPSRP.¹¹ The Commission believes by ensuring generically named stress scenarios that relate to extreme market events, as opposed to the LB default, are incorporated into the RPSRP, ICC can be more flexible and capable of considering a range of events beyond the LB Default, which, in turn, enhances its ability to collect the appropriate amount of initial margin to cover its credit exposures to its clearing participants, thereby supporting its ability to continue operating as a central counterparty with the financial resources necessary to promptly and accurately clear and settle CDS transactions and safeguard securities and funds.

Finally, the Commission believes that the proposed amendments to update the “Routinely Updated Parameters” subsection of the RPSRP to specify that the index risk factor level risk management MADs are automatically updated daily in the risk management system and the other risk factor parameters are reviewed at least monthly enhances clarity with respect to ICC’s process of setting and reviewing the model core parameters to ensure that the documentation remains up-to-date and clear to support the effectiveness of ICC’s risk management system. The Commission believes that an effective risk management system supports ICC’s ability to maintain adequate financial resources, thereby promoting both the prompt and accurate clearance and settlement of CDS transactions and the ability to safeguard securities and funds.

For these reasons, the Commission believes the proposed rule changes are consistent with Section 17A(b)(3)(F) of the Act.¹²

B. Consistency with Rule 17Ad-22(e)(2)(i) and (v)

Rule 17Ad-22(e)(2)(i) and (v) requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed, as applicable, to provide, as applicable, for governance arrangements that are clear and transparent

¹¹ See, SR-ICC-2020-009.

¹² 15 U.S.C. 78q-1(b)(3)(F).

and specify clear and direct lines of responsibility.¹³ The Commission believes that by proposing to amend the risk management MAD monthly parameter update for index risk factors to an automatic daily update in the risk management system, specifying that single name risk factor level risk management MADs are not subject to automatic updates and that the ICC Risk Department estimates and reviews the univariate single name integrated spread response parameters and their assumptions at least on a monthly basis, the proposed rule change promotes clear and transparent governance arrangements and direct lines of responsibility. For these reasons, the Commission believes that the proposed rule change is consistent with Rule 17Ad-22(e)(2)(i) and (v).¹⁴

C. Consistency with Rule 17Ad-22(e)(4)(ii)

Rule 17Ad-22(e)(4)(ii) requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed, as applicable, to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining additional financial resources at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the two participant families that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions.¹⁵

The Commission believes that by transitioning the risk management MAD monthly parameter update for index risk factors to an automatic daily update, the proposed rule change would enhance ICC's ability to manage risks and maintain sufficient financial resources by

¹³ 17 CFR 240.17Ad-22(e)(2)(i) and (v).

¹⁴ 17 CFR 240.17Ad-22(e)(2)(i) and (v).

¹⁵ 17 CFR 240.17Ad-22(e)(4)(ii).

collecting the margin designed to cover its credit exposures, thereby strengthening its ability to maintain its financial resources and thus withstand the potential pressure of the default of a clearing participant.

For these reasons, the Commission believes that the proposed rule change is consistent with Rule 17Ad-22(e)(4)(ii).

D. Consistency with Rule 17Ad-22(e)(6)(i)

Rule 17Ad-22(e)(6)(i) requires each covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed, as applicable, to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.¹⁶ As noted above, the proposed rule change would revise the RPSRP such that the index risk factor level risk management MADs are automatically updated daily in the risk management system in order to timely capture any significant MAD changes and minimize the cumulative effect of MAD changes between two parameter updates and thus reduce the level of IM procyclicality. The Commission believes that because index RFs could exhibit dynamic market response to rapidly changing macro-economic conditions, the proposed change should help to produce margin levels commensurate with the risks and particular attributes of portfolios in which positions in index RFs dominate portfolio compositions. The Commission also believes that the more frequent update should enhance and strengthen ICC's process for reviewing and setting the model core parameters, which, in turn, serves to promote the soundness of ICC's risk management model and system and thus to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market.

¹⁶ 17 CFR 240.17Ad-22(e)(6)(i).

For these reasons, the Commission believes that the proposed rule change is consistent with Rule 17Ad-22(e)(6)(i).¹⁷

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A(b)(3)(F) of the Act¹⁸ and Rules 17Ad-22(e)(2)(i) and (v),¹⁹ Rule 17Ad-22(e)(4)(ii),²⁰ and 17Ad-22(e)(6)(i)²¹ and thereunder.

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act²² that the proposed rule change (SR-ICC-2021-009), be, and hereby is, approved.²³

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁴

J. Matthew DeLesDernier,
Assistant Secretary.

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¹⁷ 17 CFR 240.17Ad-22(e)(6)(i).

¹⁸ 15 U.S.C. 78q-1(b)(3)(F).

¹⁹ 17 CFR 240.17Ad-22(e)(2)(i) and (v).

²⁰ 17 CFR 240.17Ad-22(e)(4)(ii).

²¹ 17 CFR 240.17Ad-22(e)(6)(i).

²² 15 U.S.C. 78s(b)(2).

²³ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

²⁴ 17 CFR 200.30-3(a)(12).